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SUBJECT: AFRICAN PEERS RATE MALAWI

#### SUMMARY

1. (SBU) In line with President Bingu wa Mutharika's commitment at the recent African Union Summit to have Malawi reviewed by the African Peer Review Mechanism (APRM), a preliminary report commissioned by the GOM finds "significant gaps" in economic management, a need for executive branch checks, prohibitively high costs for businesses, and a fiscal crisis starving social sector funding. Also noted is a "major and growing problem" of corruption. Aptly describing the challenges the Mutharika administration faces, the South African Institute of International Affairs (SAIIA) report rightly characterizes the GOM's focus (especially under Muluzi) on getting things right on paper, but missing the larger goals of implementation and genuine progress. Looking to the future, while development initiatives in Malawi are still largely donor driven, holding the GOM to commitments and withholding aid when appropriate (as with the GOM's current IMF relationship) seem to be effective tools in shifting the GOM's focus from pro forma to performance. END SUMMARY.

2. (U) In keeping with the GOM's plan to accede to the African Peer Review Mechanism (APRM) as announced by President Bingu wa Mutharika at the recent African Union Summit in Addis Ababa, the Ministry of Economic Planning and Development commissioned the South African Institute of International Affairs (SAIIA) to prepare a preliminary assessment of the implications of peer review for Malawi and a list of recommendations. The report, released on August 15, is based on field work done earlier in the year.

#### ECONOMIC MANAGEMENT AND GOVERNANCE

3. (U) The SAIIA report says Malawi "has significant gaps" in its economic management and governance. The report indicates that the GOM "has been living well beyond its means for several years" and, as a result, there is "a crisis of debt and donor confidence." The report says that Malawi has proper laws governing economic management, but that "disciplined implementation and leadership to command compliance with existing rules" are lacking. The budget process is described as "fiction" that results in "budget plans prepared by government (that) bear little resemblance to actual spending." The current cash management system, the report concludes, "is tantamount to a hidden second budget that is not accountable to Parliament and determined not by rational strategy but political influence behind the scenes." Of the four factors considered during the APRM, Malawi "has by far the worst performance in fiscal and economic governance."

#### DEMOCRACY AND GOOD POLITICAL GOVERNANCE

4. (U) While noting significant improvements since the 1994 advent of multi-party democracy, the SAIIA report terms Malawi as a democracy that allows "presidential rule by a minority," which will likely lead to a "greater reliance on ethnic and regional loyalties." Tensions in the 2004 electoral process were "compounded by credible complaints of unfair election management and diversion of government resources toward ruling party campaigns." The report also notes that the rule of law and the Constitution have been eroded by "crucial aspects of the balance of powers (being) intentionally subverted" by the Muluzi administration. According to the report, key checks on the executive branch should be strengthened by parliamentary independence, electoral freedom, and fiscal oversight.

#### CORPORATE GOVERNANCE AND CORRUPTION

5. (U) Observing weak laws governing money laundering, bankruptcy, commercial dispute settlement and shareholder rights, the SAIIA report suggests the GOM improve the business and investment climate by "improving regulation, responding more quickly to tariff and trade problems, and reducing the costs of doing business in the country."

6. (U) The report also determines that "corruption is a major and growing problem in Malawi," which is a result of "lax

management of government financial affairs."

#### SOCIOECONOMIC GOVERNANCE

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17. (U) In socioeconomic governance, the APRM report says Malawi initially had a good Poverty Reduction Strategy to meet the UN Millennium Development Goals, but that "fiscal crisis is increasingly starving social sectors of funding." The report suggests Malawi needs to "fundamentally re-think its strategy in many social sectors," concentrating on follow-through.

#### COMMENT

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18. (SBU) We welcome Malawi's inclusion in the African Peer Review Process, as it is a step in the right direction to increasing the GOM's transparency. This preliminary report rightly characterizes the GOM's focus (especially under Muluzi) on getting things right on paper, but missing the larger goals of implementation and genuine progress. Recognizing these shortcomings, the Mutharika administration appears to be focused on re-establishing the GOM's international credibility through keeping promises and implementing reforms.

19. (SBU) COMMENT CONTINUED. Also of note in the report is the conclusion that in order for Malawi to receive continued support from the international community, the GOM needs to respond to donor nations' "shift in attitudes" to concentrate on well-performing governments that enthusiastically embrace good governance and combat corruption. While development initiatives in Malawi are still largely donor-driven, holding the GOM to commitments and withholding aid when appropriate (as with the GOM's current IMF relationship) seem to be effective tools in making the GOM focus on a bottom line of performance. END COMMENT.  
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